



CITY OF ARCHDALE

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September 15, 2006

The Honorable Mayor Bert Lance-Stone,
Members of the City Council, and
Citizens of the City of Archdale, NC;

The Comprehensive Annual Financial Report of the City of Archdale, North Carolina for the fiscal year ended June 30, 2006 is presented herewith for your review. This report is presented by the management of the City of Archdale, which is responsible for the completeness and reliability of the information included in this report.

The Comprehensive Annual Financial Report is presented in three sections:

1. Introductory Section – This section, which is unaudited, includes this transmittal letter and information about the City's organization chart and elected officials.
2. Financial Section – This section consists of the independent auditors' report, Management's Discussion and Analysis, the basic financial statements, notes to the basic financial statements, and other schedules.
3. Statistical Section – The statistical section, which is unaudited, includes fiscal and economic data designed to provide a more complete picture of the City. It includes selected financial data trends for the City's operations over the last ten years as well as local demographic information.
4. Compliance Section – The compliance section includes the independent auditors' report on compliance and on internal control.

Chapter 15 of the North Carolina General Statutes, the Budget and Fiscal Control Act, requires that units of local government have their accounts audited as soon as possible after the close of each fiscal year by a certified public accountant. The required report shall have a complete set of financial statements prepared in accordance with generally accepted accounting principles, all disclosures in the public interest required by law, and the auditors' opinion and comments relating to the financial statements. The audited financial report is submitted to the Local

Government Commission (LGC), which is established by statute to oversee local government financial affairs. The LGC approves all audit contracts and subsequent payments of audit fees for audits of local government units. The LGC is authorized to issue rules and regulations concerning such audits.

The financial statements and supplemental schedules in the Financial Section have been audited by the independent, certified public accounting firm of S. Preston Douglas & Associates, LLP. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City, for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based on the audit, that there was reasonable basis for rendering an unqualified opinion that the City's basic financial statements for the year ended June 30, 2006 were presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

DESCRIPTION OF THE CITY

The City of Archdale first began as a Quaker settlement in the late 1700's. By the time of the Civil War, Archdale had become a major manufacturing center. During this period Archdale became known as the "Shoe Capital of the Confederacy" because of the tannery located here. In 1969 the city incorporated under the leadership of Mayor Henry York, Sr. Since then the City has grown tremendously from a small village to a current population of approximately 10,000. It was the fastest-growing municipality in the county in the decade of the 1990's; a dynamic that promises to continue in this decade. Archdale is conveniently located with city limits adjoining High Point and just 12 miles down I-85 from Greensboro, giving the City a partly urban and partly rural character.

The community is home to many large organizations. For example, the corporate offices of Sealy moved to Archdale in 1999. In addition, Thomas Built Buses, the largest supplier of school buses in the world, is located on the City line, both in Archdale and in High Point. Many other businesses are located in our two industrial parks, including Hafele, Rose Furniture, Packaging Corporation of America and Meredith Transport, just to name a few.

One of the most appreciated aspects of the city is Creekside Park, our 100+ acre city park which includes ball fields, playgrounds, tennis courts, greenways and nature trails. The City Parks and Recreation Master Plan, completed in 2005, includes a site plan for Creekside covering an expanded gymnasium, nature trails and a disc golf course plus four City Neighborhood Parks and

connecting greenways. Located in the expansive Creekside Park campus, you will also find the Archdale Public Library as well as the Archdale branch of the Randolph Community College.

Archdale is proud of the quality of education offered by the area schools and boasts several schools that have achieved the status of “School of Excellence”.

Also, there are several institutions of higher education within easy access of Archdale. The University of North Carolina at Greensboro, North Carolina A & T University, and Greensboro College are all located in Greensboro. Also nearby are Guilford College (15 miles), High Point University (10 miles), two campuses of Guilford Technical Community College (in Jamestown and High Point), and the previously mentioned campus of Randolph Community College located at Creekside Park.

Medical facilities include High Point Regional Hospital and Health System, which is located just 7 miles away in downtown High Point. Cornerstone Health Care and its wide-ranging medical services have various facilities located in both High Point and Archdale. Moses H. Cone Memorial Hospital is located in Greensboro, and internationally-recognized Wake Forest University Baptist Medical Center is just 25 miles away in Winston-Salem. In addition, Duke University Hospital in Durham and UNC Memorial Hospital in Chapel Hill are located a mere one-hour drive away.

As indicated by the recent survey completed as part of our Strategic Planning initiative, thirty-four percent of the population has lived in Archdale for longer than twenty years. Sixty percent of respondents felt that City leadership was good or excellent. Seventy-three percent felt that Archdale was a wonderful place to live, while eighty percent consider this a good community in which to raise a family.

PROFILE OF THE GOVERNMENT

The City operates under a Council-Manager form of government. The Council is the policy-making and legislative body of City government and includes a Mayor and six Council members. Two Council members are elected from each of the City’s three wards and serve four-year staggered terms. The Mayor is elected to serve a two-year term. The Mayor Pro-Tem is selected by the Council to serve a term concurrent with the Mayor. The Mayor is the presiding officer of the Council and votes only when a Council vote results in a tie.

The City Manager is appointed by the Council as the Chief Executive Officer and is responsible for carrying out the policies and ordinances of the Council. The Manager appoints department directors to assist with the administration of the daily operations and programs of the City.

The City of Archdale provides a number of services for its citizens: police protection, trash collection, recyclables collection, cultural/recreational activities, street maintenance, leaf and limb collection. The City operates an enterprise fund for water distribution and waste water collection.

ECONOMIC CONDITION AND OUTLOOK

Location: The City of Archdale is located in the Piedmont Triad along I-85 and U.S. 311 in the northwest corner of Randolph County and the southwest corner of Guilford County. The City is adjacent to High Point and Greensboro, and there are over one million people in total population within a 30-mile radius of the city. We are approximately 18 miles and 25 minutes from Piedmont Triad International Airport and the site of the new FedEx terminal. The new I-74 when completed will pass within one-quarter (1/4) mile of the City and will provide easier access to Piedmont Triad International and to other Interstate Highways such as I-95 and I-77. I-85 already provides direct access to Greensboro (15 miles) and to Charlotte (75 miles). The City, with its outstanding highway access, is a prime location for business distribution centers. In addition, the High Point Furniture Market is a twice-a-year substantial boost to the local economy. Archdale is beginning to see the advantages of location and the improved national economy. The City has been contacted by developers interested in constructing large-scale developments in the area of the NC 62 intersection with I-85. We expect this to grow the tax base in the next few years and also lead to further development, both commercial and residential.

Infrastructure: The City has 2.5 million-gallons-per-day (MGD) sewer capacity in High Point's Eastside Wastewater Treatment plant of which we use 1.0 MGD. We also have 1.0 million MGD water capacity from the City of High Point and Davidson Water, Inc. of which we use 0.9 MGD. We also are a member of Piedmont Triad Regional Water Authority, and when the Randleman Lake water treatment plant is completed the City will have 2.2 MGD capacity in that facility. In addition, both High Point and Davidson Water have indicated they are willing to provide additional water should the City need it.

INITIATIVES

The City of Archdale has taken a proactive approach to economic development by designating funds for economic development opportunities. Recent years' local government incentives distributed by the City include \$125,000 (along with the County's \$375,000) to Sealy Incorporated whose headquarters is now located in the Archdale city limits; \$250,000 (along with greater amounts from Randolph County and the City of High Point) to Thomas Built Buses for their expansion on the High Point-Archdale boundary; and \$ 52,500 (along with \$97,500 from Randolph County) to Hubble Industries. The City has committed funds to build a public street and a water and sewer line to service the YMCA, which will be constructed during the next year.

The City is once again partnering with Randolph County to provide \$50,000 in local matching funds for the United Furniture Industries Sewer Expansion Project. This Project is funded by a \$750,000 North Carolina Department of Commerce Community Development Block Grant and \$500,000 from the North Carolina Rural Economic Development Center. Completion of this sewer line and pump station will allow United Furniture Industries to expand their local operations and make use of an existing commercial site. This sewer expansion will most likely lead to additional development in this area. Evidence of that is a private developer already planning a new subdivision just south of this new UFI pump station which will have gravity lines

and a pump station connecting to the UFI pump station. In a more long-range view, the City is partnering with the City of Trinity to plan and build a wastewater treatment plant south and west of this developing area.

Construction of a new 750,000 gallon water tank, water lines and sewer lines, and a new sewer pump station is well underway, which will be a further attraction to development. We believe that this will enhance water and sewer services to the NC 62 / I-85 area and attract development to the eastern border of Archdale. As a partner in the Piedmont Triad Regional Water Authority, the City has acquired a 4.6% share of the capacity of the new water treatment plant that will be built in 2012 on the soon-to-be-filled reservoir. As a result of that partnership, the City will have another 800,000 gallons-per-day of water capacity available in the first phase of that plant's operation. The project includes a 3,000-acre reservoir and the preservation of a 3,000-acre buffer zone consisting of a strip about 200 feet wide around the reservoir. We believe that Randleman Lake will become a major recreation and tourism area that will lead to additional development in a hospitality corridor along US 311 South.

The City is being proactive in a number of areas. In recognition of the growth potential east and south of the City, we have received special legislation from the NC General Assembly and approval by the Randolph County Commissioners to extend our extraterritorial jurisdiction to two miles beyond the city limits. This gives us zoning authority in the extended area, as well as the ability to guide development in a manner consistent with the city's own regulations. Additionally, this legislation will ensure that future development in this area is consistent with the kind and quality of development within the city limits. The City also has adopted Roadway Overlay District regulations on its major roads in an effort to ensure higher quality development along those thoroughfares. In addition, we have adopted a Traditional Neighborhood Ordinance in order to encourage less sprawl and more walkable neighborhoods. Already, we are beginning to reap the benefits of these planning improvements.

FINANCIAL INFORMATION

Budgetary Control: The North Carolina Local Government Budget and Fiscal Control Act governs financial practices of all local governments in North Carolina. This statute requires local governments to adopt a balanced budget by July 1 of each year. Budgeted expenditures are shown at the department level. Department heads submit budget requests to the City Manager, who directs the Finance Department staff in budget development. A series of public budget workshops is held with Council and city management staff. The City Council is required to hold a public hearing on the proposed budget prior to adopting the budget ordinance. The ordinance establishes a legal spending limit for all the departments. Council may approve ordinances to amend the budget throughout the fiscal year. The City Manager is allowed to make intrafund transfers of up to \$10,000 per transaction, with proper notification to the Council at its next regular meeting.

A purchase order system is part of the accounting software that provides budgetary control. The Finance Director is required to sign a statement that all disbursements have been preaudited to determine that they are allowed under the current budget.

Internal Control: Management is responsible for developing an internal control system designed to protect the government's assets from loss, theft, or misuse and maintain reliable records for compilation and presentation in the city's financial information in conformity with generally accepted accounting principles. The city has a small administrative staff but employees are cross-trained and checks and balances have been included in the financial procedures. The system is designed to provide reasonable internal control and reasonable assurance that the financial statements will be free from material misstatement.

Cash Management: The types of investments authorized for North Carolina local governments are listed in the North Carolina Local Government Budget and Fiscal Control Act. City funds are primarily held in checking accounts, money market accounts and short-term certificates of deposit. All deposits are collateralized according to state statute.

Debt Management: The current bond rating for the City's general obligation debt by the North Carolina Municipal Council is 81. The City is financing the library building and equipment for its governmental activities. A sewer treatment facility and the water tank and utility system expansion project currently under construction are financed in the business-type activities. Information about the City's debt is found in the Notes to Financial Statements and the Debt Capacity information in the Statistical Section of this report.

Risk Management: The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City transfers risk whenever possible through requirements for contractors to provide proof of insurance and hold harmless clauses in contracts and agreements. Insurance coverage for the City is provided by an independent insurance consultant.

Pension and Other Post-Employment Benefits: The City is required to provide a Law Enforcement Officers' Special Separation Allowance, a single-employer defined benefit pension plan. An independent actuary calculates, on an annual basis, the amount of the annual contribution which the City may make to ensure that the plan will be able to fully meet its obligations to retired employees. The City has chosen to fund the plan on a pay-as-you-go basis. The City currently has one retiree receiving benefits and 25 non-vested members.

The City and its employees contribute to the statewide Local Government Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. The City's only obligation to this plan is the contributions it makes based on a percentage of salary.

The City contributes 5% of each employee's monthly salary to a Supplemental Retirement Income Plan administered by the Department of State Treasurer and Board of Trustees. Employees may make voluntary contributions to the plan.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the City of Archdale for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the first CAFR prepared for the City of Archdale. In order to be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

This report was prepared by the Finance Director, Lori Nurse and Accounting Technicians, April Campbell and Sharen Spencer.

Gary Parker
City Manager

Lori Nurse
Finance Director

CITY OF ARCHDALE, NORTH CAROLINA

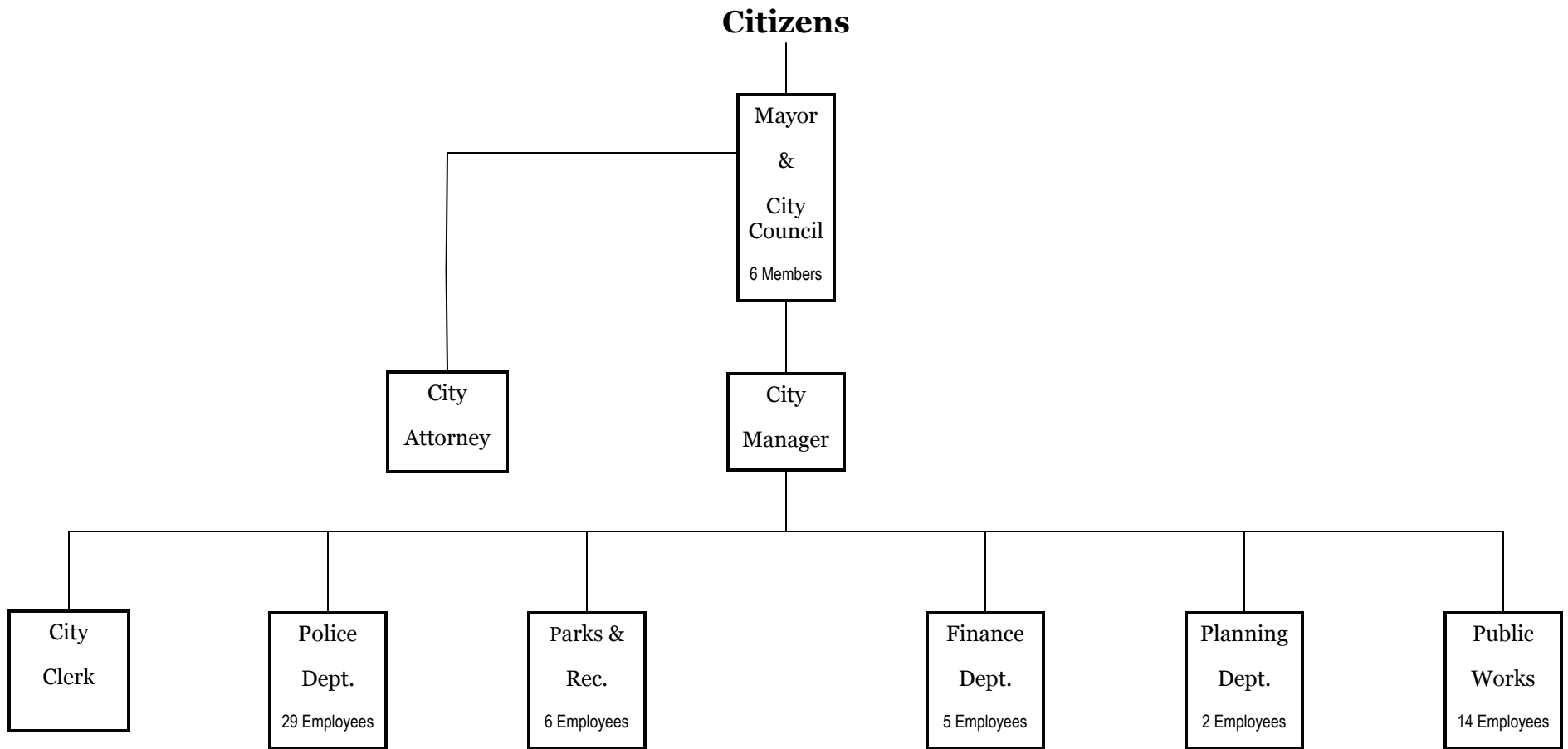
PRINCIPAL OFFICIALS

Members of City Council

| | |
|-----------------|-------------------------|
| Larry Warlick | Eddie Causey |
| Lewis Dorsett | Tim Williams |
| Roger Blackwell | Robert (Trey) Gray, III |

City Officials

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|--------------------------|-------------------------------|
| Bertha Lance-Stone | Mayor |
| Gary Parker | City Manager |
| William Miller | City Attorney |
| Patsy Dougherty | City Clerk |
| Lori Nurse..... | Finance Director |
| Gary Lewallen | Chief of Police |
| Michael Shuler | Public Works Director |
| Jeffrey Wells..... | Planning Director |
| Elaine Albertson | Parks and Recreation Director |



City of Archdale, North Carolina

Organizational Chart

